The Cost of Living: The Problem Isn't Too Little Credit, but Too Much

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With the idea of banning large investors from buying real estate, President Trump has brought to the forefront the issue of real estate. This has been recently at the top of popular discourse, and politicians and pundits of all colors have grabbed the opportunity to push their own agendas.

And one of the ways to sway public opinion towards one's goals is semantics. If we can rename something to our advantage, half the job of convincing people is done. It is a lot more important than most people think.

My mother tongue is not English but Spanish. This has allowed me to compare the two semantic strategies that the Spanish-speaking governments and the English ones have performed on this issue.

In Spain and other Hispanic countries, the current situation with house prices—which, by the way, is not a new phenomenon and is similar to that in the Anglosphere—has been rebranded the "habitation crisis." This is very specific and has been pushed to give the idea that the problem is where to live—that people cannot find properties. The current Spanish Marxist-socialist government has designed this term to make people believe, even if only subconsciously, that there are a lot of people that cannot find a dwelling due to the situation. It also puts in the same pot people unable to afford to buy a house and people struggling to pay the rent.

English-speaking governments have gone a step forward and rebranded the whole situation as an "affordability crisis." I suppose that, in Spanish, this would translate as a "crisis de asequibilidad," which is a mouthful unlikely to catch on. Language has determined government propaganda.

"Crisis"

The main problem with using *crisis* is that it transmits two ideas. First, that this is somehow a new situation. That is clearly absurd. I remember struggling to save enough in 2006 when we were all repeating the phrase that houses could not get more expensive.

The second idea is that it is such a dire situation that something must be done. The situation has become so bad that government has no option but to intervene. The use of the word "crisis" is always used to call for more government intervention, even in situations like this one, which was caused and exacerbated by government policies.

"Affordability"

So what does "affordable" actually mean? In one dictionary it is defined as being cheap enough for people to be able to buy, but this is very confusing. By definition, real prices happen when a transaction happens. A house may be valued at X amount, but you cannot really say that the price for that house is X until it is sold.

That is what we see in housing. Prices keep creeping up means that people that buy houses spend more money on them. If they could not *afford* them they could not buy them.

This is where the sleight of hand happens. The government wants to square the circle of making houses more *affordable*, but, at the same time, continue policies that contribute to asset price appreciation. That way, the owners' equity is "protected" at the same time as more people enter the market. This is obviously an unsustainable policy, but it is the one being presented as the solution. Longer-term mortgages, government-backed loans, subsidies, fiscal advantages to new homeowners are all designed to continue to fuel the market and keep prices increasing.

Credit

So if we considered housing *unaffordable*, the problem would then seem not to be prices, the issue would be that people simply do not have enough money. They do not have enough access to credit. Hence, the solution would be to set up government-backed mortgages—give subsidies, reduce interest rates. All this is to help poor struggling people, of course.

But lack of credit is not the problem. Cheap credit is the problem. We tend to concentrate on the lack of supply to explain the current housing prices, but the other side of the coin is just as important. Artificially-high demand has been fueling the housing market for quite some time. In short, supply has been restricted and demand has been subsidized, especially through easy money and credit.

The constant inflation of the money supply has entered the economy primarily in the form of cheap credit. And what is a significant good that people use credit to purchase? The answer is houses and real estate. And, the higher the price, the less likely someone can be a cash buyer. So we all tend to get a mortgage to buy. In the US, mortgage loans make up the largest source of household debt.

Cheap credit has enabled a lot of people to get on the property ladder, but it has fueled the price and asset hikes. This is only made worse by the other effect of inflation. Increases of the money supply dilute the value of each monetary unit. Coupled with the restrictions on building more houses, property is a hard asset that does not lose value in relation to the fiat currency. This has also increased the amount of people that not only invest in real estate but that consider real estate their biggest asset. Without a constant increase in prices, a lot of investment on real estate would not happen.

There Is No "Affordability Crisis"

But the real situation is that there is no *affordability crisis*, nor is there a *habitation crisis*. There is a policy of constant inflation of the monetary supply and a policy of almost a century of political interventions in the housing market. The current situation is government policy. That people are having more and more problems to get into real estate is a necessary consequence.

The Solution

We have two problems. One is the housing situation. If we are honest about having a more decent housing market, we need to understand that property prices need to come down. We need to build more housing and allow more innovation in housing, which means removing regulations. We also need a stop to artificially-cheap credit.

To start solving the first problem we need to start solving the second problem. It also means that the language should accurately describe reality. Whoever names something controls the narrative. To start reclaiming the narrative, we need to stop using the terms the government pushes.

We should stop using the term "affordability crisis." Why couldn't we go back to a more accurate description? A housing bubble. That is what is happening in reality. If we want to be more correct we can call it a government-induced, inflationary housing bubble.

Housing bubble automatically relays the truth. The problem is the artificial increase in prices, especially asset prices in this case, that outstrip economic growth and general inflation. An ever-increasing number of people cannot access this market because prices keep increasing. But quite a few people are benefiting from this situation. A housing bubble gives the impression that it is a financial event that is making some people rich and damaging everyone else, which is closer to the truth. A housing bubble is a more honest way to term the current situation.

Conclusion

We should attempt to reclaim the narrative, but a step we need to take is to stop talking like the

government wants us to talk. By deciding ourselves how to name things, we can start controlling how we consider things and we can explain events better. We need to remember that our use of language is voluntary and important. It allows us to be accurate and precise.

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